



Farsight Financial

A Guide to **ANNUITIES**

Turning your pension fund into a retirement income



A Guide to ANNUITIES

Maximising the benefits from your savings

You can normally choose when to start taking an income from your pension at anytime from age 55. When you do this, part of your pension can normally be taken as a tax-free lump sum (most people can take up to 25 per cent of the fund). The remainder of the pension fund can then be converted into an annuity which pays you a taxable income for the rest of your life.

Annuities are provided by insurance companies. The company you choose promises to pay you a regular income in exchange for your pension fund, no matter how long you live.

A SECURE INCOME

Once set up, the basis of your annuity is fixed and offers a secure income. You can be comfortable in the knowledge your income will never run out. However, because the income is fixed it is important to choose your options carefully. Once it is set up you cannot change your mind.

You rarely have to stay with your existing pension provider when you retire and often they will not offer you the best annuity income. In addition, different annuity providers offer different annuity rates. The difference between the best and worst annuity incomes can be significant.

When setting up your annuity the choices you make are important as once set up it cannot be changed. You should consider both your immediate and long-term needs carefully when making your decisions as well as those of any dependents.

RECEIVING YOUR INCOME SINGLE LIFE

The income will be paid throughout your life only. When you die the income will cease. If you're in a relationship where you're financially dependent on each other, you should strongly consider choosing a joint life annuity which continues to pay an income to your spouse or partner, if you die first.

JOINT LIFE

You can choose up to 100 per cent of the income to continue being paid to your surviving partner after your death. If you have protected rights (from contracting out of SERPS or the State Second Pension) and are married, separated or in a civil partnership, a 50 per cent spouse's income for your protected rights must be chosen. (This requirement is expected to be removed in April 2012).

GENERATING AN INCOME

Level income - The amount of income paid will remain level and not increase. Although the income may be higher initially, you should bear in mind the effects of inflation over time.

Inflation linked income - You can choose for your income to move in line with the retail price index (RPI), meaning your income will keep track with inflation and therefore retain its buying power.

Fixed percentage income - You can choose for your income to rise by a fixed percentage each year (such as 3 per cent or 5 per cent). This means your income could counter the effects of inflation.

GUARANTEEING INCOME FOR A FIXED PERIOD

No guarantee period - Unless you have opted for a joint life annuity your income will stop upon your death, even if you die shortly after taking the annuity.

Guarantee period - You can opt for the income to be guaranteed (normally for 5 or 10 years); if you die within this time the income will continue to be paid for the remaining period. If you opt for a guaranteed period and a joint life annuity your income will be paid for the remainder of the guaranteed period in the first instance, normally in accordance with your will. At the end of the guarantee period your spouse's income will be paid at the level specified, if you have chosen one.

INCOME PAYMENTS

Payment in advance - This means you receive your first payment straightaway.

Payment in arrears - This means you wait until the end of the chosen payment period.

You can also choose for your income to be paid monthly, quarterly, half yearly or annually.

ANNUITY OPTIONS

The options you choose will affect the level of income you receive from your annuity. For instance, by choosing an income that remains level you will receive a higher initial income than by choosing an income that increases over time.

ENHANCED ANNUITY

Many people who buy an annuity could enhance their annuity rate due to ill health or lifestyle conditions. Despite this only a tiny proportion actually apply.

If you have high blood pressure, diabetes or high cholesterol you could benefit from an enhanced annuity, so make sure you declare any lifestyle or medical conditions. ■

TURNING YOUR PENSION FUND INTO A RETIREMENT INCOME IS ONE OF THE BIGGEST FINANCIAL TRANSACTIONS YOU'LL EVER MAKE, SO IT'S CRUCIAL TO SPEND TIME SCOURING THE ANNUITY MARKET TO MAXIMISE THE BENEFITS FROM YOUR SAVINGS. THIS CAN SEEM AN ONEROUS TASK WITH A PLETHORA OF PRODUCTS ON OFFER AND NEWER, FLEXIBLE VERSIONS ARRIVING. FOR INFORMATION ABOUT THIS AND THE OTHER SERVICES WE OFFER, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

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